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NOTES ON "JAPAN: FORCES FOR ECONOMIC CHANGE"

1. Very little evidence is given anywhere in the paper for the statements in the key judgments section (see page v). Can't we have numbers somewhere on how, for example, overseas investment is increasing? Otherwise the statements look like nothing more than conventional wisdom. In fact, much of the report is little more than conventional wisdom that could have been pieced together from newspapers.

2. There's too much on the short-term economic outlook. I don't think that it's really intelligence to present CIA forecasts for 1987 GNP growth. Besides, by the time this report gets out they'll be obsolete. In fact, since the latest data show a reduction in Japanese unemployment and a reduction in their balance of trade surplus, there are already signs that adjustment is proceeding faster than the paper says. Basically, I don't think an estimate should be in the forecasting game. It should analyze implications, and it should bring to bear intelligence gathered abroad. Let DRI and Wharton make the forecasts.

3. Some of statements seem to be intelligence on United States policy, i.e., that the U.S. will press for some concession, or that it will continue to be irritated by trade imbalances to the point of taking action.

4. The report endorses more economic stimulation for the Japanese economy. See page vi for example. Who asked CIA for its opinions on what policy Japan should follow? Besides, it is not at all clear that inflationary measures are any more than a temporary stimulus with longer-term problems to follow. Intelligence shouldn't be in the policy recommendation game.

5. More important than the above points, I think the report goes in the wrong direction in its analysis. Its theme seems to be that Japan's exports will be reduced sharply now that the yen has become so strong, and this spells a long period of economic sluggishness. This is too narrowly focused on short-term macro considerations. Japan remains a very strong economy. If recent history has shown anything, it is Japan's ability to bend under adversity and come up with a winning strategy. They are upping their research spending, so a few years from now they will have more new products to export in spite of the stronger yen. Their financial firms are already making headway in world markets. They will probably use their huge stock of financial assets to very good advantage, putting together a world-wide empire of income-generating investments. The report, however, sees this mainly as a potential for "economic friction."

In sum, the report is much too pessimistic about Japan's economic prospects. It has a section on the

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downside risk (an even gloomier scenario), but nothing on an upside possibility, whereby the flexible Japanese economy adjusts--as it has in the past--to a new pattern of markets and achieves prosperity by somewhat different means.

6. It glosses over several interesting points. For example, it raises the possibility of export controls. In this connection, it should point out that Japan's auto industry made out very well under the VERs, which acted much like a profit-protecting cartel, and so they may think about how they could selectively soothe American protectionists while actually improving their own competitive position.

Another interesting bit of strategy is the way that Japan is approaching the LDC debt problem. Through complex means, they are making debt concessions, but in exchange for trade concessions by the LDCs. More intelligence on how this is going to work would be worthwhile.

7. The paper is not well written and it is carelessly edited. I liked the reference to the "large employees" at the top of page 19.

8. There were a few strong points in the report that could stand expansion. For example, the aging of the population is important. Maybe something on a general change in attitudes, if there is such a thing; will the Japanese consumer put up forever with the raw deal he's getting? The intelligence on Japan's probable policy course is interesting and could be expanded and centralized in the report.

o CONCLUSION: NEEDS MAJOR SURGERY

DH,
When Ken dropped this by we got into a discussion on our "problem" of who was going to revise this draft. He seemed to be willing to do the work, on the basis that this is an unmet priority because it's listed & because we have "exhausted" the resources of the DI. We might want to discuss this & the so thing a gain off you talk to Ken

Susan

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